



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
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Contact Person:

Identification Number:

Telephone Number:

Employer Identification Number:

Legend:

M =

X =

Dear :

This responds to your letter, as supplemented, in which you request rulings under I.R.C. § 501(c)(3).

Facts

You have been recognized as a charitable and educational organization described in § 501(c)(3) and classified as a public charity described in § 509(a)(2). You were created by a state legislature "to aid and assist students to fulfill a program of higher education" by relieving students of the burden to put up the collateral required for educational loans. Your original loan program was a guarantee fund designed to equal ten percent of the outstanding loans issued by participating banks. With the implementation of the Federal Family Education Loan Program (the "FFELP") under the Higher Education Act of 1965 (Pub. L. No. 89-329), you transitioned from operating a loan guarantee pool funded by charitable donations to administering a system of federally guaranteed student loans. As a guarantor, your activities have broadened over the years to include a variety of services, including public education, outreach, and community services such as:

- promoting financial aid awareness through school-based outreach programs, workshops, media events, websites, and publications;
- working with other guarantee agencies to create a comprehensive online resource for students and families about college, career, and financial aid choices; and
- conducting debt counseling and repayment counseling and supporting specialized outreach services to potential college students in populations or areas with low college

placement rates, high poverty rates and high dropout rates, and first-generation college-bound students.

Although new FFELP loan originations ceased after June 30, 2010, you have continued to provide all other guarantor functions under FFELP, working closely with, and under the direction of, the Department of Education.

Recognizing the rising levels of debt taken on by students in order to fund a college education, you have increased your focus on preventing student loan delinquency. To this end, you have refined your internal mission to assist students and parents in successfully completing a program of higher education financing and repayment. You entered into a Voluntary Flexible Agreement ("VFA") with the Department of Education which was aimed at lowering student loan default rates through proactive outreach and communication intended to teach student borrowers financial literacy and student loan management skills. Having identified best practices in student borrower communication, you developed several successful programs targeted to distinct segments of student loan borrowers that helped them to better understand their repayment options as well as to develop the financial competencies necessary to build a healthy financial lifestyle. Although your VFA ended, you have continued your borrower outreach and delinquency and default prevention efforts, and have expanded your proactive financial counseling and financial education services.

In response to escalating student debt, you wish to spark a movement to educate and empower students and graduates to successfully manage and repay their loan debt and, building on the knowledge and skills developed under your VFA with the Department of Education, to build financial competencies that will enable them to make sound financial decisions throughout their lives. You will do this by providing multi-channel, integrated services, combining on-line education and tools with outreach and counseling, all at no cost to student borrowers. Through targeted campaigns, you plan to reach out to student borrowers to (i) develop their financial acuity, (ii) understand the options available for financing their higher education, and (iii) remain on the right path to repayment of their loans. Your website will include a variety of educational modules targeted to appeal to, and effectively teach, a broad range of individuals with different learning styles.

This new program is being offered under the brand name "M." Student borrowers will sign up for free on the M website by providing a minimal set of credentials, including email, thereby enabling them to access the educational modules and counseling services. To foster a sense of engagement, those who register will be referred to as M members ("Members"). M embodies a new educational model featuring a "game-ified" highly interactive educational environment that is founded on adult learning methods. Members will learn through experiential situations with the opportunity to execute decisions and understand the consequences of those decisions in real time. They will also have the opportunity to share what they have learned among their community of Member peers. Mobile applications will be used as a component of the M educational delivery platform, and Members may opt to use mobile applications that enable them to put into practice what they have learned about money management and budgeting. To maximize the reach of your educational programs, you may distribute M content by placing links to the M website from others' websites, including those of nonprofit and for-profit entities that

may also be engaged with student borrowers.

The most productive relationship you can establish with a Member is one in which you have access to the student's demographic and educational loan data. This enables you to better customize the online learning experience, to drive proactive communications centered on student loan management and financial education, and to facilitate a counseling experience that is specific to the individual Member's financial circumstances. Currently, the most efficient and reliable means of obtaining this data is either from the school itself or from loan servicers with authorization from the school. While you hope to broaden your access to data from multiple sources, colleges and universities will remain the primary channel through which you will establish a relationship with student borrowers.

Through live one-on-one counseling via telephone or web chat, skilled counselors will advise Members who have education loans for the purpose of ensuring that they understand their repayment options and keep their loans in good standing. In cases where you have borrower loan data provided by the borrower directly or enabled by the borrower's school or others on behalf of the borrower, counselors will be able to provide specific support and guidance on repayment status, options for modification of payment terms based on unique borrower circumstances, and specific student loan scenario planning. In these cases, M counselors will also affirmatively reach out to student borrowers who may appear to be at risk of experiencing repayment difficulties to proactively assist them in avoiding delinquency and default. Where no such borrower-specific data is available for a Member, counselors will provide general directional guidance on repayment options, help borrowers identify appropriate sources for more detailed information as needed, and generally assist them in resolving confusion and conflicts related to repayment of their student loans.

Your initial efforts to deliver these services to students and former students have focused primarily on traditional exempt colleges and universities. Nonprofit schools pay a fixed fee that constitutes approximately 15% to 20% of the actual cost to provide M to their students and alumni. You may also make M available through other institutions and employers for the direct and primary benefit of employees and their families. In the future, you may broaden M to include information and assistance geared toward high school students who are in the process of deciding which college or university they will attend and how they will pay for it. Specifically, you may offer these students online college matching services, access to a free scholarship search engine, use of a college and university database with school profiles and student reviews, and a scholarship management and matching service.

In order to engage students, you will host events on college and university campuses where students are invited to learn about the M program and are encouraged to register as Members. In addition, you may give small rewards to students when they register for M at campus events to encourage both turnout and registration of new members. Such rewards may include:

- M-branded swag bags (M labeled drawstring bags with hats, t-shirts, and cups);
- Eligibility to enter a drawing for an x (one x per approximately 200 students);

- \$250 awarded to the student-organization on campus that turns out the most M registrants for the event; and
- A chance to take pictures in an M photo booth. If a Member tags it on the M page, the person with the most “likes” receives \$25.

To provide incentives to students and alumni to engage on the M website and avail themselves of the educational programs and counseling services, you plan to offer a range of Member benefits that appeal to this target audience such as:

- Free song downloads;
- A coffee mug or a coupon for a free cup of coffee;
- T-shirts bearing the M logo;
- Free access to online search tools where students can learn about available scholarships and fellowships;
- Free smart phone applications that enable real time budgeting; and
- Free or discounted access to a reputable online database where students can learn about internships and other employment opportunities.

On occasion, an educational module may provide a modest “reward” for completing the module or passing a test to demonstrate proficiency in the subject area. Recognizing that this target audience has grown up with social media, you will also explore ways to use rewards and social media to foster a sense of community online and to stimulate healthy competition among students (e.g., a free x to the first 10 students to complete all of the M modules with scores of 90 percent or better on the diagnostic tests).

In addition, you plan to compile a listing of discounts available to Members and provide that information on the M website to assist Members in putting the money management and budgeting lessons into practice. The discounted items and services will have a meaningful connection to the lessons learned and will help Members to apply their budgeting skills and live frugally during periods of loan repayment. These items and services could include:

- Discounts on products and services provided by professional test preparation programs to facilitate preparation for graduate school entrance exams;
- Discounts on school supplies, study aids, and technology (e.g., computers, calculators, printers, personal budgeting software, etc.); and
- Discounts on necessary “lifestyle” items and services (e.g., groceries, apartment furnishings, rental car services, etc.).

You will periodically review, at least semi-annually, your educational modules and M membership benefits to ensure that the rewards and benefits offered in connection with the educational modules and the low-cost offers and discounts given in connection with M membership actually further the accomplishment of M's purposes. In particular, this periodic review will assess whether receiving a modest reward for completing an educational module or passing a test to demonstrate proficiency in a subject area attracts Members to engage in these activities and, further, whether completing an activity with a modest reward incentivizes Members to complete additional modules or tests. You will also review the discounts available to Members to ensure that they relate to assisting student loan borrowers with putting the money management and budgeting lessons learned through the M program into practice.

You are developing a funding model that facilitates support at multiple levels and in various forms, including grants, service fees, qualified sponsorship payments, cause-related marketing, and royalties. Service fees are fees paid by colleges and universities to cover the costs of providing M's direct outreach program to their students and alumni. While such fees currently cover about six percent of the M program budget, you expect that they will cover 56 to 60 percent of the budget within a couple of years. While loan-specific outreach and counseling may be accessible only to sponsored students whose schools or employers pay a service fee, you intend to make many elements of the M program, including substantial web-based informational and educational components, available to all users without sponsorship or other payment of fees.

Sponsoring entities will have the opportunity to be recognized as contributors through acknowledgments on the M website. In addition, contributors will have the opportunity to sponsor specific, relevant aspects of M's content or tools.

You anticipate generating additional revenue from three sources:

- Royalty income from the passive licensing of your name and other intellectual property to organizations with services or products that you believe are complementary to your mission and which might be of interest to your membership base;
- Fees from entities that wish to advertise their services on the M website. This is anticipated to relate specifically to offers and opportunities being provided specifically for the benefit of Members; and
- Referral fees from organizations that provide discounts or other benefits to Members. Referral fees would potentially be paid in instances where a Member has connected with a provider through the M website and elected to use the provider's services beyond the M context. Any such fees would be contributed to a scholarship fund for students who require financial aid to attend college.

#### Rulings Requested

You have requested the following rulings:

1. The financial literacy and financial counseling programs offered in connection with colleges, universities, and other nonprofit institutions, at no cost to the individual beneficiaries (i.e., higher education students and recent graduates), constitute an exempt charitable and educational activity within the meaning of § 501(c)(3), and, thus, revenue from the performance of such services is exempt service income.
2. The financial literacy and financial counseling programs offered in connection with for-profit organizations, including colleges and universities, at no cost to the individual beneficiaries (i.e., higher education students and recent graduates), constitute an exempt charitable and educational activity within the meaning of § 501(c)(3), and, thus, revenue from the performance of such services is exempt service income.
3. The types of low-cost offers and discounts that you propose to provide to Members as an incentive to register for the M program and participate on the M website are incidental to the performance of your charitable and educational activity, and, thus, they do not cause you to be considered "operated for the benefit of private interests" within the meaning of Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii).
4. The rewards and benefits that you propose to offer in connection with your financial literacy programs, in furtherance of the M program's interactive learning methodology, are incidental to the performance of your charitable and educational activities, and, thus, they do not cause you to be considered "operated for the benefit of private interests" within the meaning of Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii).

#### Law

I.R.C. § 501(a) exempts from federal income taxation organizations described in § 501(c).

I.R.C. § 501(c) describes organizations organized and operated exclusively for charitable, educational, and other specified exempt purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

I.R.C. § 511(a) imposes, for each taxable year, a tax on the unrelated business taxable income (as defined in § 512) of organizations described in § 501(c).

I.R.C. § 512(a)(1) provides that the term "unrelated business taxable income" means the gross income derived by any organization from any unrelated trade or business (as defined in § 513) regularly carried on by it, less the deductions allowed by Chapter 1 which are directly connected with the carrying on of such trade or business, both computed with the modifications provided in subsection (b).

I.R.C. § 513(a) provides that the term "unrelated trade or business" means, in the case of any organization subject to the tax imposed by § 511, any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption

under § 501.

I.R.C. § 513(i)(2)(A) provides that the term "qualified sponsorship payment" means any payment made by any person engaged in a trade or business with respect to which there is no arrangement or expectation that such person will receive any substantial return benefit other than the use or acknowledgment of the name or logo (or product lines) of such person's trade or business in connection with the activities of the organization that receives such payment. Such a use or acknowledgment does not include advertising such person's products or services (including messages containing qualitative or comparative language, price information, or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services).

Treas. Reg. § 1.501(a)-1(c) provides that the words "private shareholder or individual" in § 501 refer to persons having a personal and private interest in the activities of the organization.

Treas. Reg. § 1.501(c)(3)-1(c)(1) provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in § 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated exclusively for one or more of the purposes specified in § 501(c)(3) unless it serves a public rather than a private interest. Thus, to meet the requirements of § 501(c)(3) it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Treas. Reg. § 1.501(c)(3)-1(d)(2) provides that the term "charitable" is used in § 501(c)(3) in its generally accepted legal sense, and includes the relief of the poor and distressed or of the underprivileged.

Treas. Reg. § 1.501(c)(3)-1(d)(3)(i) provides that the term "educational", as used in § 501(c)(3), relates to: (a) the instruction or training of the individual for the purpose of improving or developing his capabilities, or (b) the instruction of the public on subjects useful to the individual and beneficial to the community.

Treas. Reg. § 1.501(c)(3)-1(d)(3)(ii) provides examples of organizations that are educational. Example (2) describes an organization whose activities consist of presenting public discussion groups, forums, panels, lectures, or other similar programs which may be on radio or television. Example (3) describes an organization which presents a course of instruction by means of correspondence or through the utilization of television or radio.

Treas. Reg. § 1.513-1(d)(1) provides that gross income derives from "unrelated trade or business," within the meaning of § 513(a), if the conduct of the trade or business which produces the income is not substantially related (other through the production of funds) to the

purposes for which exemption is granted. The presence of this requirement necessitates an examination of the relationship between the business activities which generate the particular income in question—the activities, that is, of producing or distributing the goods or performing the services involved—and the accomplishment of the organization's exempt purposes.

Treas. Reg. § 1.513-1(d)(2) provides that trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income); and it is "substantially related," for purposes of § 513, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes. Where the production or the distribution of the goods or the performance of the services does not contribute importantly to the accomplishment of the exempt purposes of the organization, the income from the sale of the goods or the performance of the services does not derive from the conduct of related trade or business. Whether activities productive of gross income contribute importantly to the accomplishment of any purpose for which an organization is granted exemption depends in each case upon the facts and circumstances involved.

Rev. Rul. 68-71, 1968-1 C.B. 249, concerns an organization that was formed to educate young people and adults about employment opportunities and to assist them in planning their careers and achieving occupational adjustment. To implement its purposes, the organization conducts occupational research, publishes the results of such research, and sponsors group and individual vocational counseling. Its publications provide information to potential job seekers as to the opportunities open to them, how to take advantage of such opportunities, and descriptions of various vocational areas, such as skilled trades, business, and civil service. The publications are sold at a nominal charge to educational institutions, agencies of the federal government, and the general public. The organization does not provide a job placement service, nor does it charge fees for the vocational counseling services. Rather, it derives its income mainly from contributions. Under these facts, the Service ruled that the organization qualifies for exemption under § 501(c)(3). By helping people in planning their careers and achieving occupational adjustment by distributing educational publications and providing free vocational counseling, the organization is engaging in an educational activity.

Rev. Rul. 68-225, 1968-1 C.B. 283, concerns an organization exempt from Federal income tax under § 501(c)(3). The organization conducts charitable and educational programs that foster and promote fair housing in a metropolitan area. It endeavors to establish a climate conducive to the acceptance of minority groups in the community. Area employers endeavor to hire minority group members to comply with federal and state fair employment laws, but find their efforts hindered by an inability to find suitable housing for minority group employees. Thus, in addition to its charitable and educational programs relating to minority group housing, the organization enters into agreements with local businesses for housing referral services. These services include counseling employees seeking housing, preparing and making available to the employer listings of open housing, and advising employers on the steps they can take to establish open housing in the community. Each employer pays an annual fee depending on the



number of employees involved. Under these facts, the Service ruled that housing referral services contribute importantly to the accomplishment of the organization's charitable and educational purpose to foster and promote fair housing. Thus such services are substantially related to the purpose constituting the basis for the organization's exemption. Accordingly, the performance of these services does not constitute unrelated trade or business within the meaning of § 513.

Rev. Rul. 68-504, 1968-2 C.B. 211, concerns a nonprofit organization that was formed to conduct an educational program for bank employees in a particular urban area. The organization furnishes classrooms and employs local university professors and specialists in banking law to teach courses on various banking subjects. The organization publishes a professional magazine containing items of interest and assistance to members, and conducts occasional social affairs to stimulate interest in its educational program. No person may take the courses unless he or she is a member of the organization, but membership is open to employees of all banks in the area. Under these facts, the Service held that the organization qualifies for exemption under § 501(c)(3). By instructing individuals to improve their business or professional capabilities, the organization is engaged in an educational activity within the meaning of § 1.501(c)(3)-1(d)(3). The social activities of the organization are insubstantial in relation to its educational activities.

Rev. Rul. 69-441, 1969-2 C.B. 115, concerns a nonprofit organization that was formed to help reduce the incidence of personal bankruptcy by informing the public on personal money management and by assisting low-income individuals and families who have financial problems. The organization provides information to the public on budgeting, buying practices, and the sound use of consumer credit through the use of films, speakers, and publications. It aids low-income individuals and families who have financial problems by providing them with individual counseling and, if necessary, by establishing a budget plan. Services are provided without charge to the beneficiary. The organization's receipts are from contributions, primarily from the creditors participating in the organization's budget plans, although creditors are not required to make a contribution as a condition of participation. On these facts, the Service ruled that the organization qualified for exemption under § 501(c)(3) because, by aiding low-income individuals and families who have financial problems and by providing, without charge, counseling and a means for the orderly discharge of indebtedness, the organization is relieving the poor and distressed. Furthermore, by providing the public with information on budgeting, buying practices, and the sound use of consumer credit, the organization is instructing the public on subjects useful to the individual and beneficial to the community.

Rev. Rul. 70-186, 1970-1 C.B. 129, concerns an organization that was formed to preserve a lake as a public recreational facility and to improve the conditions of the water in the lake to enhance its recreational features. It is financed by contributions from lake front property owners, from members of the community adjacent to the lake, and from municipalities bordering the lake. By treating the water, removing algae, and otherwise improving the condition of the water, thereby insuring the continued use of the lake for recreational purposes, the organization is performing a charitable activity. The benefits to be derived from the organization's activities flow principally to the general public through the maintenance and improvement of public recreational facilities. Any private benefits derived by the lake front property owners do not

lessen the public benefits flowing from the organization's operations. In fact, it would be impossible for the organization to accomplish its purposes without providing benefits to the lake front property owners. Accordingly, under these facts, the Service ruled that the organization is exempt under § 501(c)(3).

Rev. Rul. 81-29, 1981-1 C.B. 329, concerns an organization that was formed to assist academic research libraries, state libraries and agencies, and other library organizations in exchanging bibliographic information. The organization has developed a computer network to enable participating libraries to exchange bibliographic information. The organization does not provide other services, such as routine administrative functions, to the member libraries. Membership includes libraries of colleges, universities, and historical societies which are exempt under § 501(c)(3), as well as libraries of business entities which are not exempt from federal income tax. Income is derived from each of the member libraries for cost of computer time used plus service charges. Under these circumstances, the Service ruled that the organizations qualifies for exemption under § 501(c)(3). Because the computer network makes useful bibliographic information available to researchers, it advances education within the meaning of § 1.501(c)(3)-1(d)(2). The fact that the information is furnished to both exempt and non-exempt libraries does not detract from the educational value of the information itself.

#### Analysis

*Ruling 1: Whether the financial literacy and financial counseling programs offered in connection with colleges, universities, and other nonprofit institutions, at no cost to the individual beneficiaries (i.e., higher education students and recent graduates), constitute an exempt charitable and educational activity within the meaning of § 501(c)(3), and, thus, revenue from the performance of such services is exempt service income.*

In order to analyze this ruling request we must first determine if the M program furthers an exempt charitable and educational purpose within the meaning of § 501(c)(3) and then determine if any income derived from such program is subject to unrelated business income tax. The M program will further an exempt educational purpose by teaching students and former students how to manage their finances and repay their student loan debt. You propose to use your expertise and experience as a guarantor of student loans to respond to the challenge of ensuring that higher education is accessible to all students through the improvement of student-borrowers' financial literacy and well-being. To that end, you have developed an innovative educational program, M, that, by combining a broad financial literacy curriculum, presented primarily through a new interactive website, with opportunities for personalized "live" financial counseling, offers student-borrowers the knowledge and skills they need to manage their debt and maximize their financial well-being at no cost to them. In addition, the M program will also assist students to identify scholarships, grants and other sources of funding for their educations.

Determining whether an activity qualifies as an educational activity requires an analysis of the specific facts and circumstances. As demonstrated by the examples under § 1.501(c)(3)-1(d)(3)(ii), educational activity can take place in a wide variety of settings. Like the organization in Rev. Rul. 69-441 which, by providing information to the public on the sound use of consumer

credit through films, speakers, publications, and individual counseling, all without charge, was determined to be "instructing the public on subjects useful to the individual and beneficial to the community" within the meaning of § 1.501(c)(3)-1(d)(3), you will educate the students on the sound management of student loan debt through the M website's instructional features and through individual counseling, all without charge to the students. Furthermore, like the organization described in Rev. Rul. 68-71 which, in educating young people about employment opportunities and providing free vocational counseling, was determined to be engaging in exempt educational activities, you, through the M program, will be teaching young people how to manage their finances in a manner that likewise furthers exempt educational purposes.

Your methods of delivering both educational content and personal counseling services to students specifically sponsored by their school or another organization and enrolled as Members are distinguishable from traditional "credit counseling" organizations whose programs are designed to steer clients to debt management plans. You do not offer, sell, market, or develop debt management plans or any other fee-for-service plan that generates profit for you. Rather, you provide individualized financial counseling services along with your educational program at no cost to the student borrower. Since you do not enroll any student-borrowers who register for M in debt management plans, and are not in the business of offering debt management plans, your counselors and instructors are free to focus on a student's unique circumstances and to assist them in resolving complex student loan related problems that may have hindered their ability to successfully manage or repay their loans. By counseling students who are having financial problems, without charge, you are relieving the poor and distressed within the meaning of § 1.501-1(d)(2).

Thus, the M program furthers both charitable and educational purposes, and, under operational test of § 1.501(c)(3)-1(c)(1), constitutes an activity that accomplishes one or more of the exempt purposes specified in § 501(c)(3).

Next we must consider whether the revenue you receive from the performance of services with respect to your financial literacy and financial counseling programs is excludible from your unrelated business taxable income within the meaning of § 512. You expect to fund the M program from a variety of sources, including school fees, sponsorship payments, grants, cause-related marketing, and advertising. Of these, only the schools fees (i.e., fees charged to colleges and universities to provide M financial literacy and counseling programs to their students and alumni) could be considered "revenue from the performance of services." For such fees to be considered unrelated business taxable income, they need constitute gross income derived from an unrelated trade or business regularly carried on. See Treas. Reg. § 1.513-1(a). An unrelated trade or business is a trade or business the conduct of which is not substantially related to the exempt purposes of the organization conducting the business. See Treas. Reg. § 1.513-1(d)(1). The conduct of a trade or business is substantially related to exempt purposes if it contributes importantly to those purposes. See Treas. Reg. § 1.513-1(d)(2).

The fee income you receive from colleges and universities is used to pay for M counselors to contact and provide services to the students and alumni of those colleges and universities, especially those whose data indicates that they may be delinquent or at risk of default on their

student loans. The intent of this outreach is to provide timely assistance and information to these Members so that they do not jeopardize their credit or incur substantial penalty fees by continuing in delinquency. Such services are similar to the money management and credit counseling services described in Rev. Rul. 69-441 which were found to be in furtherance of educational purposes. More specifically, counseling Members to help them avoid student loan delinquency contributes importantly to the accomplishment of your specific exempt purpose of aiding and assisting students by relieving them of the burdens associated with educational loans. Thus, since the fees you will be paid by schools to provide M program services to their students is income from the conduct of a trade or business that is substantially related to your exempt purposes, such fees will not be considered gross income from an unrelated trade or business and would be excludible from your unrelated business taxable income.

*Ruling 2: Whether the financial literacy and financial counseling programs offered in connection with for-profit organizations, including colleges and universities, at no cost to the individual beneficiaries (i.e., higher education students and recent graduates) constitutes an exempt charitable and educational activity within the meaning of § 501(c)(3) and thus, revenue from the performance of such services is exempt service income.*

Again, like the ruling above, this ruling involves several issues. Besides providing M to the students of traditional non-profit colleges and universities, you may also provide M to the students and alumni of for-profit organizations, including colleges and universities. An activity that is inherently educational does not cease to be educational merely because the beneficiaries of such activity are affiliated with a non-exempt entity. Organizations engaged in providing education and training to employees of commercial businesses may further exempt educational purposes under § 501(c)(3) so long as the training is intended to encourage the individual to develop his or her skills. For instance, in Rev. Rul. 68-504, an organization that instructs individuals on banking subjects was found to be engaged in exempt educational activities within the meaning of § 501(c)(3)-1(d)(3), despite the fact that only the employees of banks in the area could take the courses. Rev. Rul. 81-29, concludes that a regional computerized library network is operated exclusively for educational purposes even though it includes nonexempt institution libraries in its membership because the basic nature of the activities of the organization is educational, regardless of the exempt or nonexempt status of the libraries to which membership is extended and services are provided. While there is some benefit to the nonexempt institutions, that benefit is incidental to the organization's educational activities in furtherance of exempt purposes and may be said to be a logical byproduct thereof.

Implicit in these rulings is the notion that the primary (i.e., educational) benefit accrues to the persons using the services or receiving the instruction, and not the institution with which they are affiliated. Your goal is to educate and advise as many student loan borrowers as possible, at no cost to the student borrower. These individuals are the direct and primary beneficiaries of the M services, even though other entities, including some non-exempt entities, pay their membership fees. Similar to the organization described in Rev. Rul. 81-29, the fact that some of the payors are non-exempt organizations does not detract from the educational value of the information itself. Further, any benefit that a non-exempt entity might derive from offering M to its students or employees is incidental to, and a logical by-product of, the substantial direct benefit Members derive from the educational content available to them on M.

Secondly, we need to determine if the revenue you receive from the performance of services with respect to your financial literacy and financial counseling programs is excludible from your unrelated business income within the meaning of § 512. Again, only the fees charged to the for-profit organizations, including colleges and universities, to provide M financial literacy and counseling programs to their students and alumni could be considered "revenue from the performance of services."

In Rev. Rul. 68-255, a § 501(c)(3) organization entered into agreements with local businesses to provide counseling to their employees seeking housing. The businesses paid the organization a fee based on the number of employees involved. It was held that such services were substantially related to the organization's exempt purpose of promoting and fostering fair housing, and, therefore, did not constitute an unrelated trade or business within the meaning of § 513. Similarly, you intend to enter into agreements with for-profit organizations, including colleges and universities, to provide M counselors to contact and provide services to their students and alumni, especially those whose data indicates that they may be delinquent or at risk of default on their student loans. The intent of this outreach is to provide timely assistance and information to these Members so that they do not jeopardize their credit or incur substantial penalty fees by continuing in delinquency. Regardless of whether the fee is paid by a non-profit or for-profit organization, the counseling of Members to help them avoid student loan delinquency contributes importantly to the accomplishment of your specific exempt purpose of aiding and assisting students by relieving them of the burdens associated with educational loans. Thus, such services do not constitute an unrelated trade or business within the meaning of § 513, and the fees you will be paid by for-profit organizations to provide M program services to their students and alumni would not be considered gross income from an unrelated trade or business and would be excludible from your unrelated business taxable income.

*Ruling 3: Whether the types of low-cost offers and discounts that you propose to provide to Members as an incentive to register for the M program and participate on the M website are incidental to the performance of your charitable and educational activity and, thus, they do not cause you to be regarded as "operated for the benefit of private interests" within the meaning of § 1.501(c)(3)-1(d)(1)(ii).*

As described above, you may offer certain benefits and awards to encourage students to register for M. Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii) states that an organization will be considered to be operated exclusively for one or more exempt purposes only if it serves a public and not a private interest. Furthermore, § 1.501(c)(3)-1(c)(1) states that an organization will not be regarded as operated exclusively for exempt purposes if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. As illustrated in Rev. Rul. 70-186, whether a private benefit is incidental is tested on both qualitative and quantitative grounds. A benefit is qualitatively incidental if it is indirect or unintentional, or if it is a necessary concomitant of the activity which benefits the public at large in the sense that the benefit to the public cannot be achieved without necessarily benefiting certain private individuals. A benefit is quantitatively incidental only if it is insubstantial when compared with the public benefit conferred.

The "rewards" that you intend to offer to encourage the registration of new Members are both

qualitatively and quantitatively incidental to the public, educational benefits provided by the M program. These registration benefits are qualitatively incidental because, like the benefits described in Rev. Rul. 70-186, they are an integral and concomitant part of your efforts to educate and counsel college students and recent graduates about their student loan debt. Rather than serving private interests, these rewards are made for the sole purpose of encouraging students to register for, and participate in, the public educational benefits provided by the M program. Such benefits further your exempt purposes by ensuring that potential Members become aware of your educational programs.

In addition, the rewards are quantitatively incidental because they are insubstantial in comparison to the value of the financial literacy courses and personalized counseling offered through the M program. These one-time benefits available at campus events or to online registrants are generally of minimal value. In the case of a drawing to win an item such as an x, the possibility of winning is so uncertain that the value of being entered in such a drawing is minimal. As such, these rewards are akin to the insubstantial social affairs offered by the organization that conducted educational programs for bank employees in Rev. Rul. 68-504.

Finally, you will periodically review, at least semi-annually, these rewards and benefits to ensure that they actually further the accomplishment of M's purposes. For instance, you will periodically assess whether the offer of modest rewards encourages engagement in M activities and incentivizes members to complete additional modules or tests.

Thus, under these circumstances, the registration benefits and rewards that are provided to students as an incentive to register for the M program are incidental to the performance of your educational activity, and, thus, do not cause you to be operated for the benefit of private interests within the meaning of § 1.501(c)(3)-1(d)(1)(ii).

Additionally, we must look at whether the types of low-cost offers and discounts that you propose to provide to Members as an incentive to participate on the M website are incidental to the public benefits conferred by your educational activities, and, thus, would not cause you to be organized and operated for the benefit of private interests within the meaning of § 1.501(c)(3)-1(d)(1)(ii). In order to motivate students to use their M membership and to visit the website where you host the M educational program, you plan to provide certain benefits described in the Facts, above, such as music downloads, coupons, smart phone applications, access to search tools and databases, and discounts on test preparation programs, school supplies, and other items and services. The list of potential benefits is subject to change based on market (e.g., focus group) research.

You will seek out entities that may wish to sponsor M activities. Such sponsors may opt to offer discounts on their products and services to Members. Other entities that do not opt to become sponsors may nevertheless choose to offer benefits to Members. You plan to provide Members with a list of such benefit providers on one or your web pages. Benefit providers will be listed on the M website in a neutral manner with a description of the discounted product or services. Any benefits to Members or to the service providers in connection with a listing of such Member benefits is incidental to the exempt activities conducted on the M website. They are qualitatively incidental because they are intended to be a concomitant part of your efforts to motivate

students to participate in the educational activities offered on the M website. They are quantitatively incidental because their value is insubstantial and you will not undertake to promote or encourage Members to avail themselves of any particular benefits. Similar to the social gatherings described in Rev. Rul. 68-504 that were insubstantial in comparison with the educational activities for bank employees, these benefits for Members are outweighed by the predominant and substantial focus of the M website of providing financial education and by the financial counseling offered to Members. Furthermore, obtaining such sponsorships and discounts represents an insignificant investment of your time and resources compared with the time and effort expended on producing the educational content of the M website and by the counselors who provide personalized student loan assistance to Members.

Finally, you will periodically review, at least semi-annually, these offers and discounts to ensure that they relate to assisting student loan borrowers with putting money management and budgeting lessons learned on M into practice.

Thus, under these circumstances, the types of low-cost offers and discounts provided to Members as an incentive to participate on the M website are incidental to the performance of your educational activity, and, thus, would not cause you to be operated for the benefit of private interests within the meaning of § 1.501(c)(3)-1(d)(1)(ii).

*Ruling 4: Whether the rewards and benefits you propose to offer in connection with your financial literacy programs in furtherance of the M program's interactive learning methodology, are incidental to the performance of your charitable and educational activities, and, thus, would not cause you to be considered "operated for the benefit of private interests" within the meaning of § 1.501(c)(3)-1(d)(1)(ii).*

M coursework will be presented via a new educational model that is based on adult learning theory. Your objective is for each Member to proactively engage with the educational content in a memorable and self-directed manner and to have the opportunity to reinforce the learning in practical ways. The power of peer influence on college students will be utilized in several aspects of the M program, most notably in the format and presentation of "team" learning exercises, challenges, and "game-ified" learning modules intended to stimulate healthy competition and cooperation in furtherance of the goal of mastering financial lessons. This approach recognizes that some students will respond favorably to the instant gratification of token "rewards" for achieving various milestones, such as completing a learning module or winning a challenge intended to assess their retention of the material or demonstrating specific competencies and proficiencies.

The types of rewards that will be offered in connection with this program will be similar to those offered to Members when they register for M (e.g., a song download, a free cup of coffee, etc.) and may also represent special discounts offered for a limited time to a limited number of Members. Such rewards are incidental on both qualitative and quantitative grounds. They are qualitatively incidental under the standards of Rev. Rul. 70-186 because they are a necessary concomitant of the educational activities of M. In other words, the rewards are an integral part of the M program's multi-pronged approach to effectively engage and instruct each learner, ensuring a greater likelihood of content retention and of repeat visits to the website to explore

additional educational modules. And they are quantitatively incidental in comparison with the educational benefits conferred by the M program.

Therefore, the benefits that you propose to offer in connection with your financial literacy programs in furtherance of the M program's interactive learning methodology, including tools for real-world application of the ideas presented in the learning modules and an occasional reward component, are incidental to the performance of your educational activities and, thus, would not cause you to be considered "operated for the benefit of private interests" within the meaning of § 1.501(c)(3)-1(d)(1)(ii).

### Conclusion

Accordingly, in light of the above we rule as follows:

1. The financial literacy and financial counseling programs that you offer in connection with colleges, universities, and other nonprofit institutions, at no cost to the individual beneficiaries (i.e., higher education students and recent graduates), are substantially related (within the meaning of § 1.513-1(d)) to your exempt educational purpose, and, thus, any fees received from such institutions to provide such programs to their students and alumni will not be regarded as unrelated business taxable income within the meaning of § 512(a)(1).
2. The financial literacy and financial counseling programs that you offer in connection with for-profit organizations, including colleges and universities, at no cost to the individual beneficiaries (i.e., higher education students and recent graduates), are substantially related (within the meaning of § 1.513-1(d)) to your exempt educational purposes, and, thus, any fees received from such institutions to provide such programs to their students and alumni will not be regarded as unrelated business taxable income within the meaning of § 512(a)(1).
3. The types of low-cost offers and discounts that you propose to provide to Members as an incentive to register for the M program and participate on the M website are incidental to the performance of your charitable and educational activities, and, thus, they will not cause you to be regarded as "operated for the benefit of private interests" within the meaning of § 1.501(c)(3)-1(d)(1)(ii).
4. The rewards and benefits that you propose to offer in connection with your financial literacy programs, in furtherance of the M program's interactive learning methodology, are incidental to the performance of your charitable and educational activities, and, thus, they will not cause you to be regarded as "operated for the benefit of private interests" within the meaning of § 1.501(c)(3)-1(d)(1)(ii).



We are specifically not ruling on whether referral fees or any other payments you might receive from entities that offer discounts on their products or other benefits or services to Members are qualified sponsorship payments within the meaning of § 513(i)(2)(A) or are otherwise excludible from unrelated business taxable income under § 512.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

This ruling is based on the facts as they were presented and on the understanding that there will be no material changes in these facts. This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Steven B. Grodnitzky  
Manager, Exempt Organizations  
Technical Group 1

Enclosure  
Notice 437